LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– Ross Miller, Chief Economist

September GRF tax revenue was $37 million above the estimate published by the Office of Budget and Management (OBM) in August. September's tax receipts boosted the year-to-date (YTD) positive variance to $71 million for the first quarter of FY 2020. The commercial activity tax (CAT) provided the largest positive variance for the first quarter from any single tax, at nearly $34 million.

Solid tax revenues have come despite some indications of slowing growth in the national economy. Inflation-adjusted U.S. gross domestic product (real GDP) grew by 2.0% at an annualized rate in the April through June quarter, slower than the 3.1% growth in the first quarter. The U.S. Bureau of Economic Analysis (BEA) attributed the slowdown to downturns in inventory investment, exports, and nonresidential fixed investment. Consumer spending grew by a solid 4.6% (annualized).

Through September 2019, GRF sources totaled $8.56 billion:

- Revenue from the sales and use tax was $30.9 million above estimate;
- Personal income tax (PIT) receipts were $18.8 million above estimate.

Through September 2019, GRF uses totaled $9.97 billion:

- Program expenditures were $68.2 million below estimate;
- Property tax reimbursements were $108.9 million above estimate primarily due to timing;
- Expenditures from all other program categories were below estimates, including Medicaid, which was below estimate by $62.5 million.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of September 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$128,063	$125,600	$2,463	2.0%
Nonauto Sales and Use	$728,967	$735,900	-$6,933	-0.9%
Total Sales and Use	*$857,030*	*$861,500*	*-$4,470*	*-0.5%*
Personal Income	$930,915	$897,800	$33,115	3.7%
Commercial Activity Tax	$11,975	$7,000	$4,975	71.1%
Cigarette	$80,025	$81,800	-$1,775	-2.2%
Kilowatt-Hour Excise	$32,832	$31,800	$1,032	3.2%
Foreign Insurance	$8,182	$6,300	$1,882	29.9%
Domestic Insurance	$0	$0	$0	---
Financial Institution	-$1,966	-$7,000	$5,034	71.9%
Public Utility	$3	$100	-$97	-96.8%
Natural Gas Consumption	$1	$0	$1	---
Alcoholic Beverage	$3,468	$5,800	-$2,332	-40.2%
Liquor Gallonage	$4,541	$4,400	$141	3.2%
Petroleum Activity Tax	$1,796	$2,000	-$204	-10.2%
Corporate Franchise	$4	$0	$4	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,928,806**	**$1,891,500**	**$37,306**	**2.0%**
Nontax Revenue				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$3,093	$1,878	$1,215	64.7%
Other Revenue	$5,707	$52,574	-$46,867	-89.1%
Total Nontax Revenue	**$8,800**	**$54,452**	**-$45,652**	**-83.8%**
Transfers In	**$6,000**	**$0**	**$6,000**	**---**
Total State Sources	**$1,943,606**	**$1,945,952**	**-$2,346**	**-0.1%**
Federal Grants	**$677,819**	**$683,436**	**-$5,617**	**-0.8%**
Total GRF Sources	**$2,621,425**	**$2,629,388**	**-$7,963**	**-0.3%**

*Estimates of the Office of Budget and Management as of August 2019.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2020 as of September 30, 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Tax Revenue						
Auto Sales	$418,613	$399,800	$18,813	4.7%	$387,375	8.1%
Nonauto Sales and Use	$2,325,404	$2,313,300	$12,104	0.5%	$2,241,989	3.7%
Total Sales and Use	*$2,744,017*	*$2,713,100*	*$30,917*	*1.1%*	*$2,629,364*	*4.4%*
Personal Income	$2,282,127	$2,263,300	$18,827	0.8%	$2,212,629	3.1%
Commercial Activity Tax	$399,431	$365,800	$33,631	9.2%	$347,006	15.1%
Cigarette	$179,389	$182,700	-$3,311	-1.8%	$183,009	-2.0%
Kilowatt-Hour Excise	$89,913	$90,800	-$887	-1.0%	$95,596	-5.9%
Foreign Insurance	$8,919	$7,600	$1,319	17.3%	$8,357	6.7%
Domestic Insurance	$1	$0	$1	---	$0	1566.7%
Financial Institution	-$9,506	-$5,500	-$4,006	-72.8%	-$6,160	-54.3%
Public Utility	$32,092	$31,900	$192	0.6%	$32,411	-1.0%
Natural Gas Consumption	$12,770	$14,000	-$1,230	-8.8%	$14,839	-13.9%
Alcoholic Beverage	$12,484	$16,600	-$4,116	-24.8%	$16,033	-22.1%
Liquor Gallonage	$13,249	$13,000	$249	1.9%	$12,900	2.7%
Petroleum Activity Tax	$1,796	$2,000	-$204	-10.2%	$2,019	-11.0%
Corporate Franchise	-$26	$0	-$26	---	$162	-116.3%
Estate	$38	$0	$38	---	$37	0.2%
Total Tax Revenue	**$5,766,691**	**$5,695,300**	**$71,391**	**1.3%**	**$5,548,202**	**3.9%**
Nontax Revenue						
Earnings on Investments	$0	$0	$0	---	$88	-100.0%
Licenses and Fees	$8,605	$7,001	$1,604	22.9%	$8,256	4.2%
Other Revenue	$69,730	$55,040	$14,690	26.7%	$16,035	334.9%
Total Nontax Revenue	**$78,335**	**$62,041**	**$16,293**	**26.3%**	**$24,378**	**221.3%**
Transfers In	**$75,480**	**$68,570**	**$6,911**	**10.1%**	**$75,995**	**-0.7%**
Total State Sources	**$5,920,507**	**$5,825,911**	**$94,596**	**1.6%**	**$5,648,575**	**4.8%**
Federal Grants	**$2,640,938**	**$2,689,714**	**-$48,776**	**-1.8%**	**$2,671,679**	**-1.2%**
Total GRF SOURCES	**$8,561,445**	**$8,515,625**	**$45,819**	**0.5%**	**$8,320,254**	**2.9%**

*Estimates of the Office of Budget and Management as of August 2019.
**Cumulative totals through the same month in FY 2019.
Detail may not sum to total due to rounding.

Revenues[1]

– Jean Botomogno, Principal Economist

Overview

FY 2020 GRF sources of $8.56 billion through September were $45.8 million (0.5%) above OBM estimates of August 2019. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants (which are typically federal reimbursements for Medicaid and other human services programs). In the first quarter, GRF tax sources totaled $5.77 billion. This amount was $71.4 million (1.3%) above projections due to positive variances of $30.9 million (1.1%) for the sales and use tax, $33.6 million (9.2%) for the CAT, and $18.8 million (0.8%) for the PIT. In addition, nontax revenue and transfers in were above projections by $16.3 million (26.3%) and $6.9 million (10.1%), respectively. Those positive variances were partially offset by a shortfall of $48.8 million (1.8%) for federal grants, which totaled $2.64 billion in the first fiscal quarter. Tables 1 and 2 show GRF sources for the month of September and for FY 2020 through September, respectively.

In addition to good performances from the largest GRF tax sources, the foreign insurance tax was the only other GRF tax source with a noticeable surplus of $1.3 million YTD. The fourth largest GRF tax source, the cigarette and other tobacco products tax, posted a cumulative shortfall of $3.3 million. YTD negative variances were also recorded for the alcoholic beverage tax ($4.1 million), the financial institutions tax (FIT, $4.0 million),[2] the natural gas consumption tax ($1.2 million), and the kilowatt-hour tax ($0.9 million).

Total GRF sources for the month of September of $2.62 billion were $8.0 million (0.3%) below projections but with positive variances of $37.3 million for GRF tax sources and $6.0 million for transfers in. Those positive variances were offset by shortfalls of $5.6 million for federal grants and a timing-related negative variance of $45.7 million for nontax revenue. The monthly negative variance for nontax revenue reflects a payment made by JobsOhio in August that had been expected in September.[3]

Regarding GRF taxes in September 2019, the PIT exceeded projections by $33.1 million, while the CAT and the FIT each had a positive variance of $5.0 million. In addition, revenues from the foreign insurance tax and the kilowatt-hour tax were $1.9 million and $1.0 million, respectively, more than expected. On the other hand, the sales and use tax had a negative

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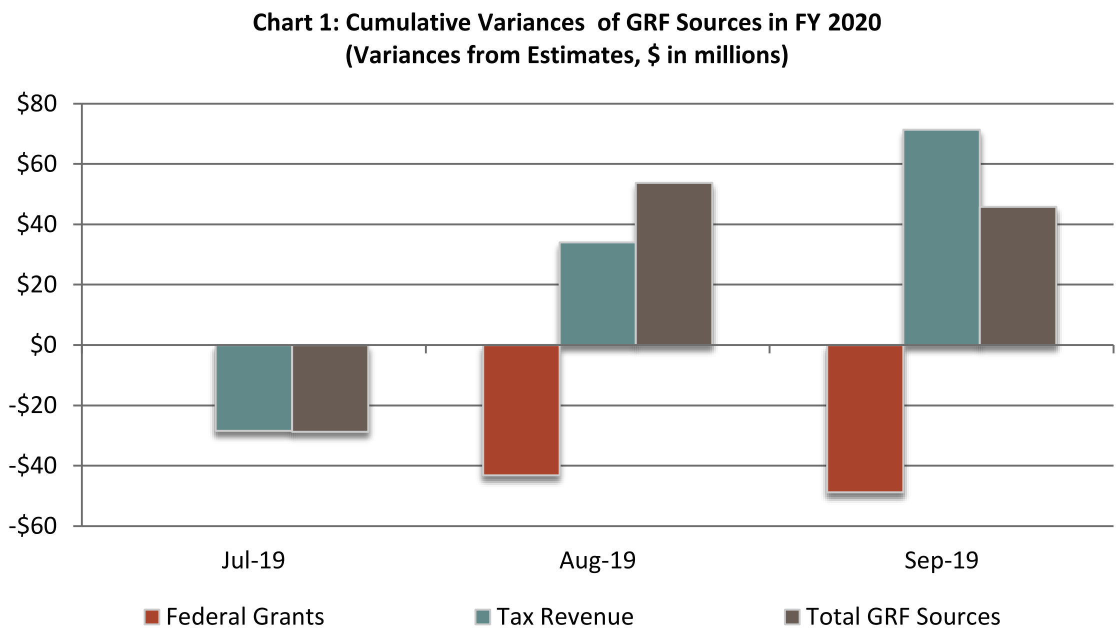
[1] This report compares actual monthly and year-to-date GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than estimate.

[2] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers make adjustments to previous tax filings. FIT receipts are generally expected at the end of January, March, and May. As shown in Table 2, first-quarter FIT refunds were $4.0 million larger than expected.

[3] In August, nontax revenue was above estimate by $62.3 million due to the early payment.

variance of $4.5 million, and the alcoholic beverage tax and the cigarette tax were short of estimates by $2.3 million and $1.8 million, respectively. Chart 1, below, shows cumulative variances of GRF sources in FY 2020.



As shown in Table 2, FY 2020 GRF sources through September were $241.2 million (2.9%) above sources in the corresponding period in FY 2019, with GRF tax sources accounting for $218.5 million of the total growth. Receipts from nontax revenue were $54.0 million above revenue from this source in FY 2019. Federal grants and transfers in decreased $30.7 million and $0.5 million, respectively. As a result of continuing economic growth, FY 2020 first-quarter receipts increased for the largest GRF tax sources: the sales and use tax ($114.7 million), the PIT ($69.5 million), and the CAT ($52.4 million). Growth in PIT revenue, at 3.1%, was slower than growth in the other two tax sources largely due to a reduction in withholding rates that went into effect in January of this year. Revenue from the cigarette and other tobacco products tax, continuing its usual yearly downward trend, fell $3.6 million. Revenue also fell for the kilowatt-hour tax ($5.7 million), the alcoholic beverage tax ($3.5 million), the FIT ($3.3 million), and the natural gas consumption tax ($2.1 million).

Sales and Use Tax

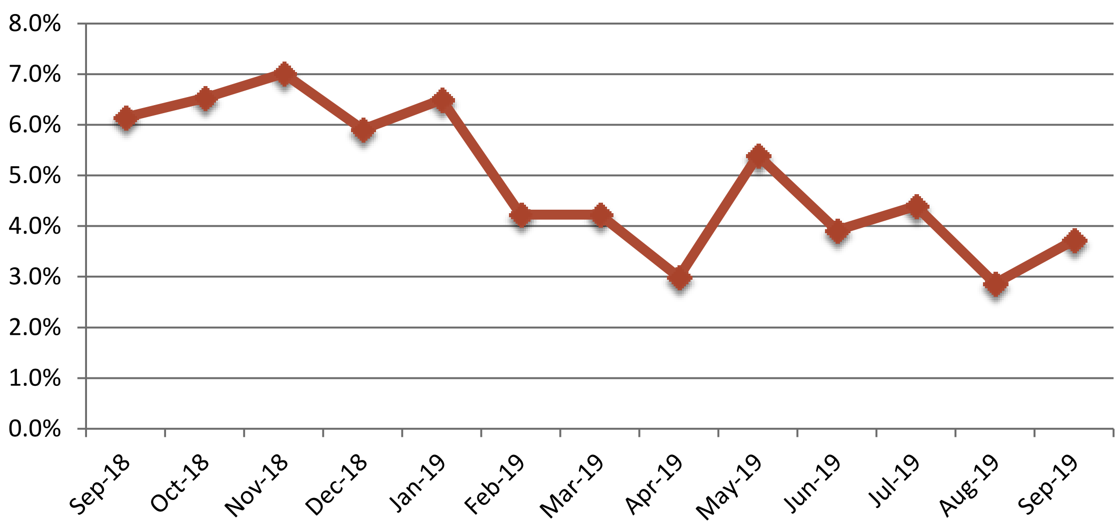
The sales and use tax had a strong FY 2019 and was again in positive territory in the first quarter of FY 2020. Through September, receipts to the GRF from the sales and use tax totaled $2.74 billion. This amount was $30.9 million (1.1%) above estimate and 4.4% above first-quarter revenue in FY 2019. Both the nonauto and the auto portions of the tax were ahead of projections.

For the month of September, however, GRF receipts of $857.0 million were $4.5 million (0.5%) below estimated revenue, though they were $32.2 million (3.9%) above receipts in the same month in 2018. The nonauto sales and use tax posted a negative variance of $6.9 million that was partially offset by a gain of $2.5 million from the auto sales and use tax. For analysis and forecasting, revenue from the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

Nonauto Sales and Use Tax

YTD FY 2020 nonauto sales and use tax receipts to the GRF totaled $2.33 billion, an amount $12.1 million (0.5%) above estimate and $83.4 million (3.7%) above revenue in the corresponding period in FY 2019. However, GRF revenue of $729.0 million in September was below estimate by $6.9 million (0.9%). Monthly receipts were $19.4 million (2.7%) above revenue in September 2018. Chart 2, below, shows year-over-year growth in nonauto sales and use tax collections in the last 12 months. Revenue growth for this tax has been solid, supported by employment and wage gains throughout the period, though the growth rate has declined. Nonauto sales and use tax growth has been supported by increased sales tax remittances by out-of-state sellers. Though the total amount of additional tax revenue is uncertain, Ohio has benefitted from an increase in voluntary collections by certain remote sellers in the wake of the U.S. Supreme Court decision in *South Dakota v. Wayfair* in June 2018.[4] Following this Supreme Court decision, H.B. 166, the main operating budget act for the biennium, made several changes to sales tax law and substantially modified Ohio's nexus assumptions which will boost revenue from the nonauto sales and use tax. The changes are expected to increase revenue by $121 million in FY 2020 and $210 million in FY 2021. However, the revenue gains may be higher or lower depending on the behavioral response of remote sellers and market facilitators.

Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)

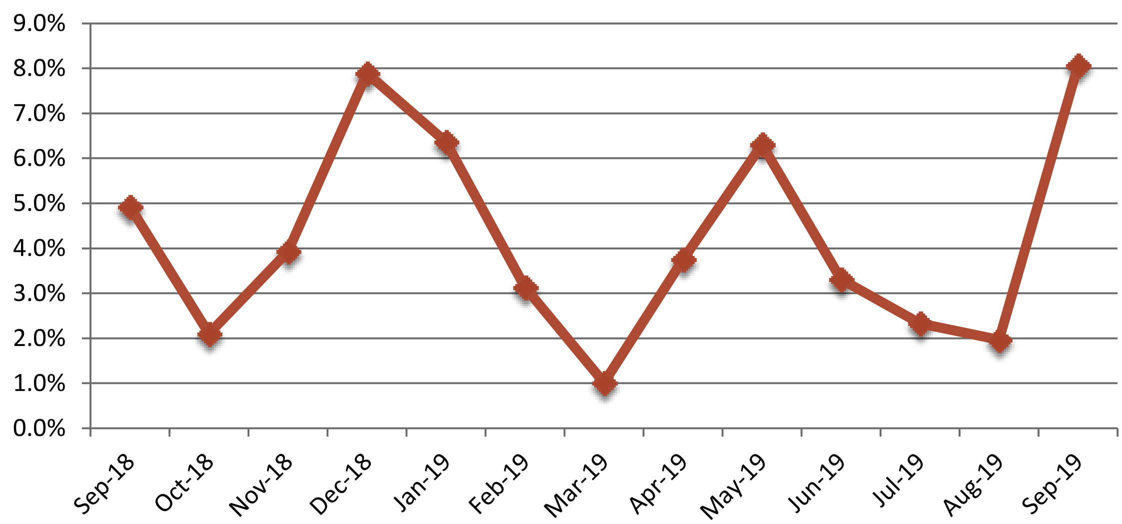


[4] Though the Court's decision applied only to South Dakota, it reversed long-standing federal law that prevented states from requiring out-of-state sellers to collect sales tax on purchases by residents of the state. Certain sellers have decided to impose and remit sales taxes even though they may not yet be required to do so by state law.

Auto Sales and Use Tax

Similarly to the nonauto sales and use tax, the auto sales and use tax performed above expectations in the first three months of FY 2020. GRF revenue from this source totaling $418.6 million through September was $18.8 million (4.7%) above estimates and also $31.2 million (8.1%) above receipts in the corresponding period in FY 2019. For the month of September 2019, revenue from this tax was $128.1 million, $2.5 million (2.0%) above estimate and $12.8 million (11.1%) above the amount received in the same month in 2018. Chart 3, below, shows year-over-year growth in auto sales and use tax collections. Revenue growth has been uneven but remained positive. The rise in Ohio auto sales and use tax revenue had been mostly due to price increases for both new and used vehicles. The price increases represent the combined effects of inflation and a shift in consumer tastes toward more expensive models, especially light trucks and sport utility vehicles (SUVs). Compared to the corresponding quarter in FY 2019, first-quarter data from the Ohio Bureau of Motor Vehicles show a 2.9% increase in the number of titles issued and an increase of 5.1% in average prices.

Chart 3: Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Personal Income Tax

YTD FY 2020 PIT GRF revenue of $2.28 billion was $18.8 million (0.8%) above OBM projections. First-quarter PIT receipts were also $69.5 million (3.1%) above receipts in the first three months of FY 2019. Comparisons with year-ago receipts are affected by a 3.3% withholding rate reduction earlier this calendar year.[5] PIT revenue is comprised of gross collections minus refunds and distributions to the LGF. Gross collections consist of employer withholdings, quarterly estimated payments,[6] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections (about 81% of gross collections in FY 2019). Larger than expected refunds could also greatly affect the monthly performance of the tax.

September GRF receipts of $930.9 million were $33.1 million (3.7%) above estimate and $75.5 million (8.8%) above receipts in September 2018. Gross collections were above projections by $34.1 million, with all components exceeding projected revenue: withholding, quarterly estimated payments, and annual return payments were above estimates by $13.7 million, $11.7 million, and $6.6 million, respectively. Gross collections' positive variance was reduced by a distribution to the LGF that was $1.1 million larger than expected, whereas refunds were slightly below target.

FY 2020 revenues from each component of the PIT relative to estimates and to revenue received in FY 2019 are detailed in the table below. FY 2020 gross collections were above estimate by $28.0 million. First-quarter revenue from all components was ahead of estimates. Higher than projected refunds ($8.1 million) and distributions to the LGF ($1.1 million) reduced the positive variance for GRF revenue to the $18.8 million total. FY 2020 refunds and LGF distributions[7] also increased compared to their amounts in the prior year, while gross collections grew from FY 2019 by $100.0 million.

[5] Effective January 1, 2019, Ohio employer withholding tax rates were reduced by 3.3% in order to be fully consistent with the income tax rate reductions enacted in 2015 (H.B. 64 of the 131st General Assembly).

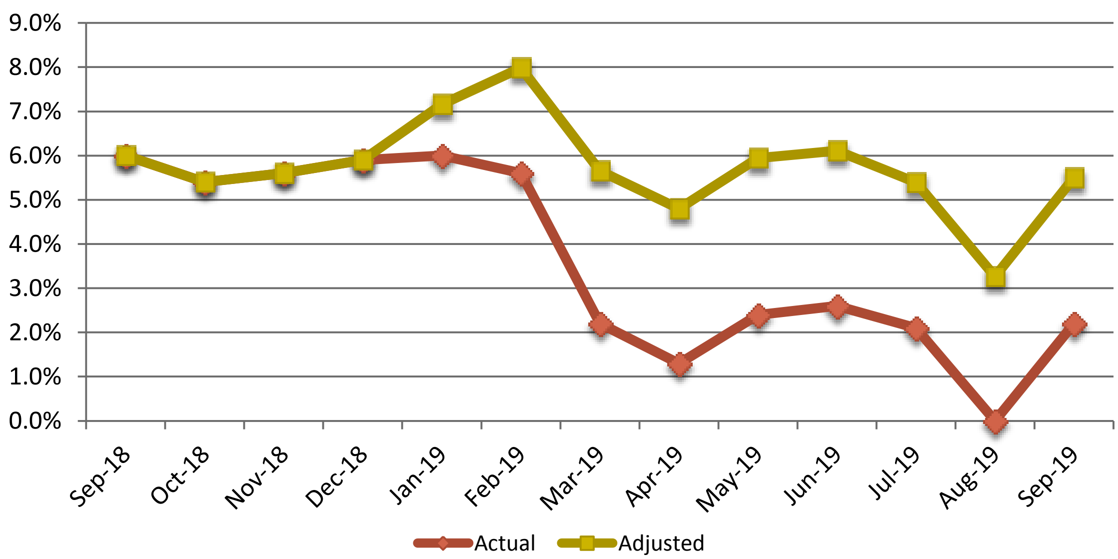
[6] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

[7] In part, the increase in LGF distributions is due to an increase in the allocation of GRF tax revenue to the LGF. H.B. 166 included a provision in uncodified law increasing the allocation from 1.66% of GRF tax revenue to 1.68% during the current biennium. The allocation thus accounts for 1.2 percentage points of the 3.3% increase in LGF distributions.

FY 2020 PIT Revenue Variance and Annual Change by Component				
Category	YTD Variance from Estimate		Changes from FY 2019	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$11.9	0.5%	$54.7	2.5%
Quarterly Estimated Payments	$8.1	3.3%	$30.2	13.7%
Trust Payments	$1.3	10.7%	$1.5	12.0%
Annual Return Payments	$5.5	12.0%	$12.1	30.7%
Miscellaneous Payments	$1.1	6.6%	$1.5	9.3%
Gross Collections	**$28.0**	**1.1%**	**$100.0**	**4.1%**
Less Refunds	$8.1	5.1%	$27.2	19.5%
Less LGF Distribution	$1.1	1.0%	$3.3	3.3%
GRF PIT Revenue	**$18.8**	**0.8%**	**$69.5**	**3.1%**

Through September, FY 2020 employer withholding receipts[8] grew 2.5%. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows both the actual change in withholding receipts in FY 2020 and estimated withholding receipts adjusted for the decrease in withholding tax rates in January.

Chart 4: Monthly Witholding Receipts Trend
Actual and Adjusted vs. Prior Year
(Three-month Moving Average)



[8] Withholding receipts consist of monthly employer withholding (about 99% of the total) and annual employer withholding. For FY 2020, monthly employer withholding was 2.2% above such receipts in FY 2019. On the other hand, annual employer withholding grew 152.1%.

Commercial Activity Tax

Receipts from the CAT have come in above projection every month this fiscal year. FY 2020 GRF receipts in the first quarter totaled $399.4 million, $33.6 million (9.2%) above estimate and $52.4 million (15.1%) above revenue through September in FY 2019. September revenue of $12.0 million was $5.0 million (71.1%) above estimate and $9.0 million (298.5%) above revenue in September 2018. This monthly performance follows positive variances of $18.2 million in August and $10.4 million in July.

Under continuing law, CAT receipts are deposited into the GRF (85%), the School District Tangible Property Tax Replacement Fund (Fund 7047, 13%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2%). Through September, Fund 7047 and Fund 7081 received $61.1 million and $9.4 million, respectively. The distributions are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are transferred back to the GRF.

FY 2020 first-quarter gross collections (i.e., all funds revenue) increased $88.3 million (21.2%) relative to collections in FY 2019. Refunds also increased by $26.7 million (451.6%) in the first quarter this fiscal year, resulting in a lower growth rate for GRF receipts.

Cigarette and Other Tobacco Products Tax

FY 2020 first-quarter revenue from the cigarette and other tobacco products (OTP) tax totaling $179.4 million was below estimate by $3.3 million (1.8%). This total included $158.8 million from the sale of cigarettes and $20.6 million from the sale of OTP. September 2019 receipts of $80.0 million were $1.8 million (2.2%) below estimate but $4.9 million (6.6%) above revenue in September 2018.

FY 2020 receipts from this tax source fell $3.6 million (2.0%) relative to revenues in the corresponding period in FY 2019. Receipts from cigarette sales fell $4.5 million (2.8%) while those from the sale of OTP increased $0.9 million (4.5%). On a yearly basis, revenue from the cigarette and OTP tax usually trends downward, generally at a slow pace; this is due to a decline of cigarette revenue, while receipts from the tax on OTP generally increase. The OTP tax is an ad valorem tax, generally 17% of the wholesale price paid by wholesalers for the product; thus, revenue from that portion of the tax base (about 8% of the total tax base) grows with OTP price increases.

Starting October 1, 2019, H.B. 166 levied a tax of 10¢ per milliliter of vapor product, or if the vapor product is sold in nonliquid form, a tax per gram. Vapor product is defined as any liquid solution or other substance that contains nicotine and is depleted as it is used in an electronic smoking product. However, the increase in revenue from this new tax is unlikely to offset the yearly decline in cigarette and OTP tax receipts.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of September 2019
($ in thousands)
(Actual based on OAKS reports run October 2, 2019)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$719,596	$756,457	-$36,861	-4.9%
Higher Education	$188,268	$200,147	-$11,879	-5.9%
Other Education	$13,995	$15,456	-$1,461	-9.5%
Total Education	**$921,859**	**$972,060**	**-$50,200**	**-5.2%**
Medicaid	$1,109,783	$1,124,376	-$14,593	-1.3%
Health and Human Services	$74,073	$88,324	-$14,251	-16.1%
Total Health and Human Services	**$1,183,856**	**$1,212,700**	**-$28,844**	**-2.4%**
Justice and Public Protection	$167,404	$175,474	-$8,070	-4.6%
General Government	$29,381	$47,495	-$18,115	-38.1%
Total Government Operations	**$196,785**	**$222,970**	**-$26,185**	**-11.7%**
Property Tax Reimbursements	$399,650	$270,325	$129,325	47.8%
Debt Service	$375,135	$375,382	-$246	-0.1%
Total Other Expenditures	**$774,785**	**$645,707**	**$129,079**	**20.0%**
Total Program Expenditures	**$3,077,286**	**$3,053,436**	**$23,849**	**0.8%**
Transfers Out	**$8,198**	**$0**	**$8,198**	**---**
Total GRF Uses	**$3,085,484**	**$3,053,436**	**$32,048**	**1.0%**

*September 2019 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2020 as of September 30, 2019
($ in thousands)
(Actual based on OAKS reports run October 2, 2019)

Program Category	Actual	Estimate*	Variance	Percent	FY 2019**	Percent
Primary and Secondary Education	$2,176,112	$2,217,554	-$41,443	-1.9%	$2,165,896	0.5%
Higher Education	$541,734	$555,418	-$13,684	-2.5%	$562,389	-3.7%
Other Education	$31,651	$33,164	-$1,513	-4.6%	$26,430	19.8%
Total Education	**$2,749,497**	**$2,806,137**	**-$56,640**	**-2.0%**	**$2,754,715**	**-0.2%**
Medicaid	$4,158,325	$4,220,789	-$62,464	-1.5%	$4,132,180	0.6%
Health and Human Services	$297,636	$322,870	-$25,233	-7.8%	$287,486	3.5%
Total Health and Human Services	**$4,455,961**	**$4,543,659**	**-$87,698**	**-1.9%**	**$4,419,666**	**0.8%**
Justice and Public Protection	$630,320	$649,602	-$19,283	-3.0%	$617,824	2.0%
General Government	$111,008	$124,209	-$13,201	-10.6%	$98,944	12.2%
Total Government Operations	**$741,328**	**$773,811**	**-$32,483**	**-4.2%**	**$716,768**	**3.4%**
Property Tax Reimbursements	$601,005	$492,120	$108,885	22.1%	$577,235	4.1%
Debt Service	$761,147	$761,393	-$246	0.0%	$794,412	-4.2%
Total Other Expenditures	**$1,362,152**	**$1,253,513**	**$108,639**	**8.7%**	**$1,371,647**	**-0.7%**
Total Program Expenditures	**$9,308,938**	**$9,377,120**	**-$68,182**	**-0.7%**	**$9,262,795**	**0.5%**
Transfers Out	**$656,601**	**$642,775**	**$13,826**	**2.2%**	**$741,871**	**-11.5%**
Total GRF Uses	**$9,965,540**	**$10,019,895**	**-$54,355**	**-0.5%**	**$10,004,666**	**-0.4%**

*September 2019 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2019.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on October 2, 2019)

	Month of September 2019				Year to Date through September 2019			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,036,923	$1,054,004	-$17,081	-1.6%	$3,952,386	$4,016,364	-$63,977	-1.6%
Non-GRF	$1,176,106	$1,211,082	-$34,976	-2.9%	$2,340,198	$2,383,376	-$43,178	-1.8%
All Funds	$2,213,029	$2,265,086	-$52,057	-2.3%	$6,292,584	$6,399,740	-$107,155	-1.7%
Developmental Disabilities								
GRF	$60,807	$58,506	$2,301	3.9%	$176,554	$176,616	-$62	0.0%
Non-GRF	$204,426	$206,288	-$1,862	-0.9%	$654,759	$657,997	-$3,238	-0.5%
All Funds	$265,233	$264,795	$439	0.2%	$831,314	$834,614	-$3,300	-0.4%
Job and Family Services								
GRF	$11,218	$11,003	$215	2.0%	$26,977	$25,127	$1,850	7.4%
Non-GRF	$12,673	$9,582	$3,091	32.3%	$45,628	$37,130	$8,498	22.9%
All Funds	$23,891	$20,585	$3,306	16.1%	$72,605	$62,257	$10,348	16.6%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$834	$862	-$28	-3.2%	$2,407	$2,683	-$276	-10.3%
Non-GRF	$5,512	$3,407	$2,105	61.8%	$11,767	$10,878	$889	8.2%
All Funds	$6,346	$4,269	$2,077	48.6%	$14,174	$13,561	$613	4.5%
All Departments:								
GRF	**$1,109,783**	**$1,124,376**	**-$14,593**	**-1.3%**	**$4,158,325**	**$4,220,789**	**-$62,464**	**-1.5%**
Non-GRF	**$1,398,717**	**$1,430,359**	**-$31,642**	**-2.2%**	**$3,052,352**	**$3,089,382**	**-$37,030**	**-1.2%**
All Funds	**$2,508,500**	**$2,554,735**	**-$46,235**	**-1.8%**	**$7,210,677**	**$7,310,171**	**-$99,494**	**-1.4%**

*September 2019 estimates from the Department of Medicaid.
Detail may not sum to total due to rounding.

Table 6: All Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on October 2, 2019)

	Month of September 2019				Year to Date through September 2019			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,391,515**	**$1,389,282**	**$2,232**	**0.2%**	**$4,148,712**	**$4,164,437**	**-$15,724**	**-0.4%**
CFC†	$482,247	$493,109	-$10,863	-2.2%	$1,459,339	$1,482,095	-$22,755	-1.5%
Group VIII	$360,130	$362,266	-$2,135	-0.6%	$1,078,138	$1,087,132	-$8,994	-0.8%
ABD†	$234,176	$236,306	-$2,130	-0.9%	$700,723	$706,802	-$6,079	-0.9%
ABD Kids	$75,650	$76,836	-$1,187	-1.5%	$226,529	$229,111	-$2,583	-1.1%
My Care	$239,312	$220,765	$18,547	8.4%	$683,984	$659,296	$24,687	3.7%
Fee-For-Service	**$960,855**	**$959,504**	**$1,350**	**0.1%**	**$2,567,317**	**$2,597,745**	**-$30,427**	**-1.2%**
ODM Services	$359,648	$373,898	-$14,250	-3.8%	$1,059,959	$1,100,591	-$40,632	-3.7%
DDD Services	$261,241	$250,884	$10,357	4.1%	$808,030	$809,153	-$1,122	-0.1%
Hospital - HCAP†	$339,965	$334,722	$5,243	1.6%	$680,646	$669,444	$11,202	1.7%
Hospital - Other	$0	$0	$0		$18,681	$18,557	$125	0.7%
Premium Assistance	**$91,875**	**$93,082**	**-$1,207**	**-1.3%**	**$271,550**	**$276,130**	**-$4,580**	**-1.7%**
Medicare Buy-In	$52,995	$53,519	-$524	-1.0%	$155,142	$158,728	-$3,585	-2.3%
Medicare Part D	$38,880	$39,563	-$683	-1.7%	$116,408	$117,402	-$995	-0.9%
Administration	**$64,256**	**$112,867**	**-$48,611**	**-43.1%**	**$223,097**	**$271,860**	**-$48,762**	**-17.9%**
Total	**$2,508,500**	**$2,554,735**	**-$46,235**	**-1.8%**	**$7,210,677**	**$7,310,171**	**-$99,494**	**-1.4%**

*September 2019 estimates from the Department of Medicaid.
†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program.
Detail may not sum to total due to rounding.

Expenditures[9]

– *Melaney Carter, Director*

– *Ivy Chen, Principal Economist*

Overview

Through September, FY 2020 GRF program expenditures totaled $9.31 billion. These expenditures were $68.2 million (0.7%) below the estimate released by OBM in September 2019. All program categories were below estimate except for Property Tax Reimbursements, which were above estimate by $108.9 million (22.1%) due to timing. Transfers out were also above estimate by $13.8 million (2.2%) YTD. Combining both program expenditures and transfers out, total YTD GRF uses were below estimate by $54.4 million (0.5%). YTD GRF expenditures compared to estimates and the corresponding period in FY 2019 are shown in the preceding Table 4. Table 3 shows GRF expenditures for the month of September compared to estimates. From Table 3, you can see that the positive YTD variance in Property Tax Reimbursements was caused by a positive variance of $129.3 million (47.8%) in September, which also pushed the monthly variance in total program expenditures into positive territory ($23.8 million, 0.8%) despite all other categories having negative variances. The addition of a positive variance of $8.2 million in transfers out for the month resulted in a positive monthly variance in total GRF uses of $32.0 million (1.0%).

The remainder of this article will give more details about the variance in the Property Tax Reimbursements category, as well as the two largest negative YTD variances. The largest negative variance was in the Medicaid category. YTD GRF Medicaid expenditures were below estimate by $62.5 million (1.5%) at the end of September. The Medicaid section will also discuss non-GRF expenditures to give a complete view of Medicaid spending. The second largest negative GRF YTD variance was $41.4 million (1.9%) in the Primary and Secondary Education category.

Property Tax Reimbursements

This category of GRF expenditures reimburses school districts and other local governments for their property tax losses due to property tax rollbacks and the homestead exemption. Reimbursements are made twice a year. The current payment is based on a property tax settlement conducted in August. Reimbursements will be made as counties request them through December. Since payments are made at the request of the counties, this category often has variances at the beginning of a cycle that are offset as the cycle draws to a close. In August, this category was under estimate by $20.4 million and in September, it was over estimate by $129.3 million, resulting in a positive YTD variance of $108.9 million. This YTD variance should decrease by the end of the calendar year.

Medicaid

GRF Medicaid expenditures were below both their monthly and YTD estimates, by $14.6 million (1.3%) and $62.5 million (1.5%), respectively. Non-GRF Medicaid expenditures

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[9] This report compares actual monthly and YTD expenditures from the GRF to OBM's estimates. If a program category's actual expenditures were higher than estimate, that program category is deemed to have a positive variance. The program category is deemed to have a negative variance when its actual expenditures were lower than estimate.

were also below both their monthly and YTD estimates, by $31.6 million (2.2%) and $37.0 million (1.2%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures were $46.2 million (1.8%) below estimate in September and $99.5 million (1.4%) below the YTD estimate at the end of September. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars.

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM), the Ohio Department of Developmental Disabilities (ODODD), and six other "sister" agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. Therefore, they generally also account for the majority of the variances in Medicaid expenditures. The other six agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining one percent of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Expenditures were below their YTD estimates for all four payment categories. Administration ($48.8 million, 17.9%) had the largest overall negative variance, followed by Fee-For-Service (FFS, $30.4 million, 1.2%), Managed Care ($15.7 million, 0.4%), and Premium Assistance ($4.6 million, 1.7%).

The variance in the Administration category is mostly due to timing and is expected to smooth out throughout the fiscal year. The FFS variance is largely due to lower than expected spending in the Ohio Medicaid Schools Program (MSP). MSP allows school entities to be reimbursed for Medicaid covered services, certain administrative activities, and specialized transportation provided to eligible children aged 3 to 21 years. Services are delivered through an individualized education program designed to enable a child to participate in school. Any qualified local education agency may participate in MSP voluntarily.

Primary and Secondary Education

This category of GRF expenditures includes all GRF spending by the Ohio Department of Education (ODE). YTD spending in this category was under estimate by $41.4 million (1.9%) at the end of September. This variance was driven by negative variances in two line items: 200550, Foundation Funding, and 200573, EdChoice Expansion.

Item 200550 supplies the bulk of the state's subsidy payments for public school students to school districts, joint vocational school districts, community and STEM schools, and nonpublic schools through the state's voucher programs. This item is the usual culprit when there are significant variances in the Primary and Secondary Education category. This is partly because of the size of the appropriation ($6.94 billion for FY 2020) but mainly because payments are based on data that are updated throughout the year. For FY 2020, however, foundation payments are based on FY 2019 amounts, so there might be more stability in this item than has been typical in prior years. The YTD variance for item 200550 was a negative $19.9 million at the end of September.

Item 200573 provides payments for students who obtain state-paid Educational Choice (EdChoice) scholarships through the income-based expansion of the program. The estimates spread the appropriation out into two payments of $28.6 million each. Actual payments will be more evenly spread out. The YTD variance for item 200573 was a negative $16.6 million at the end of September.

Issue Updates

ODH Announces Funding for Vaping Prevention Initiatives

– Jacquelyn Schroeder, Budget Analyst

On September 10, 2019, the Ohio Department of Health (ODH) announced that it would invest $4.1 million in new programming to prevent and reduce e-cigarette usage (vaping) among Ohio's youth. Of this amount, $3.3 million will be used to develop new tools and resources for local organizations to help them educate communities about the dangers of vaping. Tools may include a web-based module on vaping prevention, awareness education for parents and caregivers, as well as community outreach and public awareness activities. Additionally, $800,000 will be allocated for public education campaigns that target parents and youth regarding vaping dangers and inform the public about the new age restriction law on the sale of tobacco products. This law prohibits the sale of tobacco and vaping products to individuals under the age of 21 and takes effect on October 17, 2019. ODH also plans to send a letter to Ohio school districts that encourages them to prohibit vaping products in their schools. The letter will also address vaping dangers and educate officials about free resources that help individuals quit vaping.

In August, ODH issued a health alert to all healthcare providers asking them to report suspected cases of severe pulmonary illness in which vaping is involved to local or state health officials. Symptoms of the illness include coughing, shortness of breath, chest pain, nausea, vomiting, abdominal pain, and fever. As of August, no deaths have been reported in Ohio. However, 20 Ohioans between 16 and 59 years of age have been hospitalized in 12 counties. There are also 21 additional illness reports that are under investigation. Nationwide, 530 cases of lung illness have been reported in 38 states and one U.S. territory and seven deaths have occurred. While investigations are currently ongoing, the Centers for Disease Control and Prevention (CDC) states that no single product or substance has been directly linked in these cases yet.

According to the CDC, e-cigarettes are the most commonly used tobacco product among youth. In 2018, more than 3.6 million middle and high schoolers in the U.S. used e-cigarettes, which equates to about 20.8% of all high schoolers and 4.9% of all middle schoolers.

Controlling Board Approves $3.3 Million for Hemp Program

– Shannon Pleiman, Senior Budget Analyst

On September 9, 2019, the Controlling Board approved a request from the Department of Agriculture to transfer approximately $3.3 million in FY 2020 from the Controlling Board Emergency Purposes/Contingencies Fund (Fund 5KM0) to the Hemp Program Fund (Fund 5WJ0) to support the newly created Hemp Program. The Hemp Program was established by S.B. 57 of the 133rd General Assembly and requires the Department to establish, with the U.S. Department of Agriculture's approval, a Hemp Cultivation and Processing Program to monitor and regulate hemp cultivation and processing in Ohio. The majority of the approved funding, approximately $1.8 million, will be used to buy lab equipment to test cannabidiol (CBD) and hemp products and purchase hemp field mapping software. Just under $735,000 will be used to hire ten new employees to oversee the program. This includes a program director, an office support employee, an attorney, an agricultural inspection manager, a lab supervisor, two plant health inspectors, two food safety specialists, and an IT support staffer. Of the remainder, $595,000 will go towards supplies and maintenance and $215,000 will be used for purchased personal services, including lab contracts and staff augmentation to ensure the new hemp software and equipment connects to existing lab databases at the Department.

Controlling Board Approves $4.3 Million for New 911 Grant Program

– Shannon Pleiman, Senior Budget Analyst

On September 23, 2019, the Controlling Board approved a Department of Commerce request for an appropriation of $1.0 million in FY 2020 and $3.3 million in FY 2021 to operate the 911 Grant Program created by the federal Next Generation 911 Advancement Act of 2012. Of the $4.3 million total over the biennium, approximately $3.8 million (90%) is for issuing grants and approximately $430,000 (10%) is for administrative expenses. Local 911 emergency call centers may use these grants to cover 60% of their costs for migrating to a digital, IP-enabled network and adopting Next Generation 911 technology. The technology enables the exchange of digital information, supports more efficient management of emergencies and call overload, and more accurately identifies the location of callers. Grants may also be used to train 911 call center personnel and others who are part of the 911 service response chain. While the grants are disbursed by the Department of Commerce, the Ohio 911 Program Office under the Department of Administrative Services is responsible for overseeing grant applications and approvals, as well as ensuring that grant recipients comply with the grant guidelines.

Attorney General Awards $4.2 Million in Rape Crisis Program Grants

– Jessica Murphy, Budget Analyst

On August 20, 2019, the Attorney General's Office announced the award of $4.2 million in GRF-funded Rape Crisis Center grants for FY 2020. Rape crisis centers are eligible for the grants if they provide specified core services, including hotlines, victim advocacy, and ongoing support from the onset of the need for services through the healing process. A total of 31 centers operating throughout the state each received a grant of $120,774.[10] In addition, a grant of $416,000 was made to the Alliance to End Sexual Violence, a nonprofit state sexual assault coalition, to provide statewide training on sexual assault issues.

The grant program is funded through GRF line item 055501, Rape Crisis Centers. This item was established by the FY 2014-FY 2015 biennial operating budget, which appropriated $1.0 million in each of those fiscal years to the program. This funding resulted in annual grants to 25 rape crisis programs, generally in the amount of $36,789. Funding for the program in the

[10] Awards by county and agency can be found in the August 20 news release on the Attorney General's website at: https://www.ohioattorneygeneral.gov/Media.

next two biennia increased to about $1.4 million per year. H.B. 166 triples this annual funding to $4.2 million. This increase in funding resulted in the Attorney General awarding larger grants to programs in more counties.

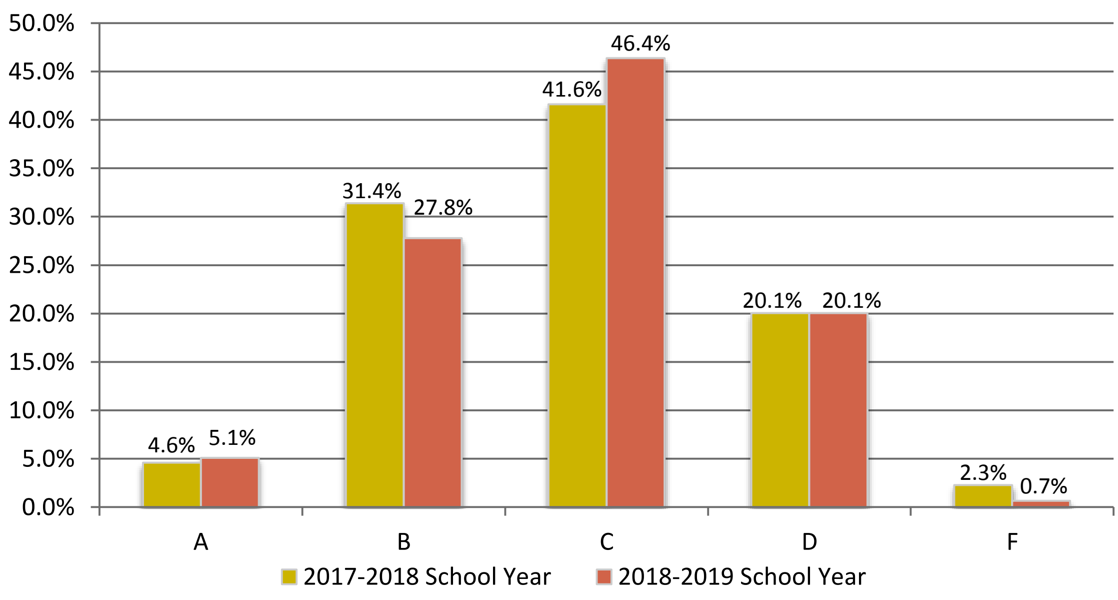
ODE Releases 2018-2019 School Report Cards

– Dan Redmond, Budget Analyst

On September 12, 2019, ODE released report cards for public districts and schools for the 2018-2019 school year. The report cards provide an overall A-F letter grade derived from performance on six individually graded components: Achievement, Progress, Gap Closing, Graduation Rate, Improving At-Risk K-3 Readers, and Prepared for Success, each of which is comprised of various graded and ungraded performance measures. The Achievement and Progress components contribute 20% each toward a district's overall grade while the other four components contribute 15% each. The report cards also publish financial data on classroom instruction, revenue sources, and spending per pupil. New to this year's report cards are data comparing federal spending per pupil to state and local spending per pupil.

The 2018-2019 school year report cards are the second to incorporate overall letter grades. Compared to the 2017-2018 school year, 17.4% of districts (106) received a higher overall grade, 16.6% (101) received a lower grade, and 66.0% (401) received the same grade. Like the 2017-2018 school year, most districts are clustered toward the middle of the grading scale. As shown in the chart below, 46.4% (282) of districts received a "C," the most common grade. Another 27.8% (169) of districts received a "B," 20.1% (122) received a "D," 5.1% (31) received an "A," and 0.7% (4) received an "F." Compared to the prior school year, the total percentage of districts receiving an "A" or "B" decreased from 36.0% to 32.9% while the percentage of districts receiving a "D" or "F" decreased from 22.4% to 20.7%. This latter decrease is attributable to the number of districts receiving an "F," which decreased from 14 districts to four districts.

Distribution of School District Overall Report Card Letter Grades, 2017-2018 and 2018-2019 School Years



ODODD to Raise Rates for Direct Support Providers

– Alexander Moon, Economist

On August 20, 2019, ODODD announced a compensation increase for direct support professionals (DSPs) who provide services under a Medicaid waiver. Two separate DSP compensation rates will be implemented. First, the DSP homemaker/personal care hourly rate will increase from an average of $11.12 to $12.82 by January 1, 2020, and then again to $13.23 by January 1, 2021. Second, the on-site/on-call DSP hourly rate will increase from $6.09 to $8.55 by January 1, 2020. These two increases are anticipated to cost $308.3 million over the FY 2020-FY 2021 biennium and will be paid for with a mixture of state and federal funds, as well as local funds from county boards of developmental disabilities. H.B. 166 included a provision that increased the homemaker/personal care rates by these exact amounts. However, the provision was vetoed by the Governor with the explanation that reimbursement rates in statute imposed on the ability of state departments to manage costs and policies. The veto message stated that the increases would instead be implemented administratively. These increased reimbursement rates are expected to reduce DSP turnover rates, which can be as high as 55% per year, and lead to more consistent care for individuals who receive care.

The DSP field consists of a variety of individuals with various backgrounds. A high school education is typically required, and some community colleges, vocational schools, and private organizations offer nondegree programs as well. DSPs provide a variety of services to individuals with developmental disabilities. These services help an individual remain within his or her home or community and also help the individual meet daily living needs.

Controlling Board Approves $219,000 for Services to Incarcerated Juvenile Parents with Minor Children

– Robert Meeker, Budget Analyst

On September 9, 2019, the Controlling Board approved waivers of competitive selection totaling $218,604 for four service providers working with the Department of Youth Services (DYS) to implement positive family engagement strategies and activities that address the needs of incarcerated parents with minor children as part of the Every Child Matters program. The program is a collaboration between DYS and seven youth services organizations (service providers) annually serving 60 youth committed to DYS who have minor children.

The contracts are funded through a $749,997 U.S. Office of Juvenile Justice and Delinquency Prevention (OJJDP) Second Chance grant awarded in FY 2018. A total of $664,500 will be used for services provided by program partners during the grant period ending in FY 2022, with the remaining $85,497 budgeted for use by DYS for program materials and incentives and rewards for incarcerated juveniles and their children for completing program milestones. Services provided under the grant include mentoring for children of incarcerated parents, enhancing communication between children and parents, and transportation assistance for in-person visits.

The table below lists the seven service providers and the amount budgeted to each provider over the grant period, FY 2019 through FY 2022. The four providers whose FY 2020 contracts were subject to the Controlling Board's waiver of competitive selection are Passages, the RIDGE Project, Family and Youth Advocacy Center at Capital University, and Action for Children.

2018 Second Chance Grant Contract Funding, FY 2019-FY 2022	
Service Provider/Agency Name	**Budgeted Amount**
Passages	$132,000
The RIDGE Project	$127,500
Family and Youth Advocacy Center at Capital University	$120,000
Action for Children	$114,000
Unlocking Futures	$75,000
Youth Law Center	$75,000
Global Partners for Fathers and Families	$21,000
Partner Total	$664,500
Department of Youth Services	$85,497
Overall Total	$749,997

DHE Distributes $1.5 Million in State Share of Instruction Reconciliation Payments to 12 Community Colleges

– Edward Millane, Senior Budget Analyst

In August 2019, the Department of Higher Education (DHE) distributed $1.5 million to 12 community colleges as part of a reconciliation of FY 2019 obligations under the State Share of Instruction (SSI) formula, the main source of state operating support for public higher education (see the table below for the payments to individual colleges). According to a DHE spokesperson, the reconciliation payments were made necessary due to an inadvertent miscalculation in the number of students DHE classified as "at-risk" in the FY 2019 SSI formula for community colleges. Certain outcomes achieved by at-risk students, such as course and degree completions, are weighted more heavily in the formula. Since the SSI formula allocates funding to an institution in proportion to its share of the statewide total for a particular outcome factor, the miscalculation shifted some SSI funding toward 11 community colleges and away from 12 others. The SSI reconciliation payments compensate those 12 community colleges for their FY 2019 underpayment. The reconciliation payments, required by H.B. 166, were supported by the transfer of $1.5 million in unused FY 2019 GRF appropriations within DHE's budget to line item 235505, State Share of Instruction Reconciliation.

Community Colleges Receiving H.B. 166 SSI Reconciliation Payments	
College	**Amount**
Cuyahoga Community College	$562,402
Lakeland Community College	$301,339
Lorain County Community College	$283,495
Southern State Community College	$90,576
Eastern Gateway Community College	$84,825
Rio Grande Community College	$44,461
Cincinnati State Technical and Community College	$40,419
Washington State Community College	$37,176
North Central State College	$27,313
Terra State Community College	$20,362
James A. Rhodes State College	$5,800
Hocking Technical College	$1,832
Total	$1,500,000

Tracking the Economy

– Eric Makela, Economist

– Phil Cummins, Senior Economist

Overview

The U.S. economy continues to expand on the strength of the service sector. Industrial production remains below a peak at the end of 2018. In September, 136,000 workers were added to nonagricultural payrolls and the national unemployment rate decreased to 3.5%, lowest since 1969. Real GDP grew at an annualized rate of 2.0% in the second quarter of 2019. Inflation remains low.

In Ohio, total nonfarm payroll employment through August remained below a peak reached in January, seasonally adjusted. However, a broader measure of total Ohio employment, estimated separately in conjunction with unemployment, continued to grow each month this year. Payroll employment increased by 3,700 in August, but the state's unemployment rate increased by 0.1 percentage point to 4.1%. Personal income in Ohio rose at an annual rate of 4.5% in the second quarter of 2019, trailing the national average.

At its September meeting, the Federal Open Market Committee (FOMC), the monetary policy-setting group in the central bank, lowered its short-term interest rate target by 0.25 percentage point to a range of 1.75% to 2.0%. The reduction was the second cut this year following nine increases starting in 2015. In the press release following the September meeting, the FOMC said it acted "[i]n light of the implications of global developments for the economic outlook as well as muted inflation pressures." The median forecast of meeting participants was for no further net change in the interest rate target through the end of calendar year 2020. As of October 7, however, federal funds futures pricing indicated a widespread expectation of another 0.25 percentage point rate cut when the FOMC meets later this month.[11]

The National Economy

The national unemployment rate declined by 0.2 percentage point in September, to 3.5%, the lowest since 1969, according to the Bureau of Labor Statistics. The number of unemployed persons nationally was approximately 5.8 million in September, and the labor force participation rate – defined as the number of employed persons plus persons not employed and looking for work, divided by the noninstitutionalized population – remained level at 63.2%. A comparison of the national and state unemployment rates can be viewed in Chart 5. The rate of unemployment for Ohioans has been greater than the nationwide average since April 2016.

The national economy gained 136,000 nonfarm payroll employees in September, below the average 2019 per-month job growth of 161,000. Employment rose in health care (+39,000), professional and business services (+34,000), government (+22,000), and transportation and warehousing (+16,000). In addition, employment data from July and August were revised upward by a total of 45,000, indicating stronger job growth than previously reported during those months. A comparison of national and state nonfarm payroll employment can be viewed in Chart 6.

[11] https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html.

Real GDP rose at a 2.0% annual rate in the 2019 second quarter in the third estimate from the BEA. Consumer spending increased at a 4.6% rate and government spending increased, but other components of final demand fell including exports and both nonresidential and residential fixed investment. Businesses added to inventories at a slower rate in the second quarter than in the year's first three months. Monthly data show real consumer spending continued to rise in July and August, though not as rapidly as in the second quarter.

Light vehicle sales rose a seasonally adjusted 1.1% from August to September, with monthly increases of 1.0% or greater in both the auto and light truck categories. From September 2018 to September 2019, auto sales decreased 11.0%, while light truck sales increased 4.0%. The pace of light vehicle sales remained 2.0% to 3.0% below the recent peak in 2016. The market for new vehicles is likely to continue to favor light trucks according to the National Automobile Dealers Association.

Industrial production rose 0.6% in August as manufacturing output (75% of the total index) rose 0.5%. The indexes remained lower than levels early this year, which were below peaks at the end of 2018. Mining output recovered in August from cuts in oil extraction in July because of Hurricane Barry.

According to the Institute for Supply Management (ISM), activity in the manufacturing sector declined in September, the second straight month of contraction measured by ISM's purchasing managers index (PMI).[12] Reports of declines in production and employment in the manufacturing sector were more widespread in September among surveyed purchasing executives than in August. ISM's nonmanufacturing index registered

[12] ISM's PMI combines measures of production, new orders, inventories, employment, and timeliness of supplier deliveries.

increases in new orders, employment, and overall activity in the month of September, although data indicated slower growth compared to the prior month.[13]

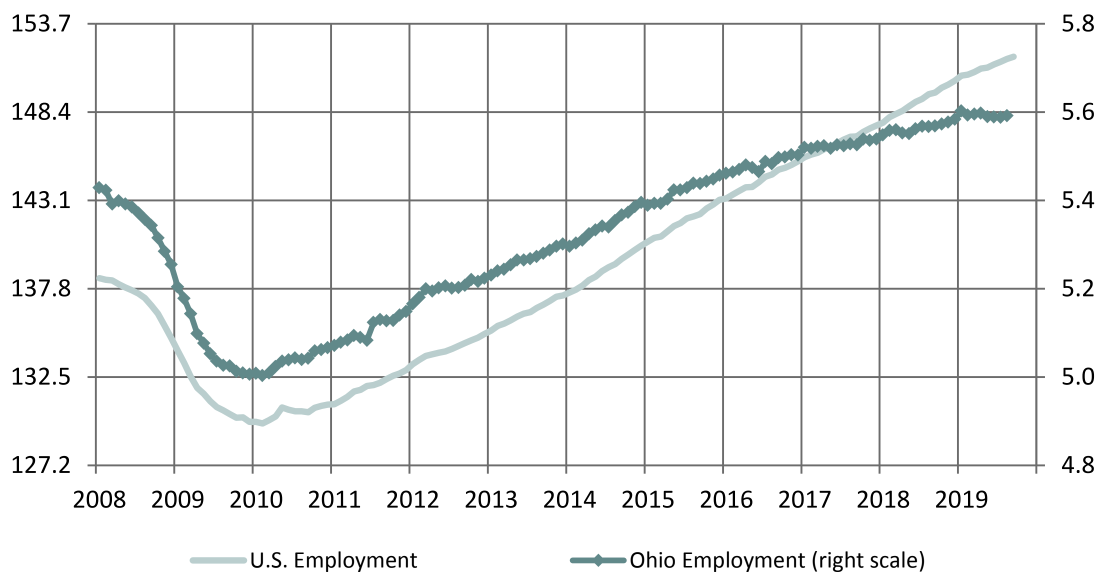
The consumer price index (CPI) rose 0.1% in August, held down by a 1.9% drop in energy prices. Gasoline prices fell 3.5% after rising 2.5% in July. Food prices were unchanged for the third consecutive month. Compared with prices a year earlier, the CPI for all items was 1.7% higher, and excluding volatile food and energy prices increased 2.4%, the largest 12-month rise since July 2018. A related measure, the personal consumption expenditures price index, was 1.4% higher in August than a year earlier and 1.8% higher excluding food and energy prices.

The Ohio Economy

Total nonfarm payroll employment in Ohio rose 3,700 (0.1%) from July to August, and was 24,800 (0.4%) higher than a year earlier. The statewide average unemployment rate rose to 4.1% in August, up from 4.0% in June and July, lowest since 2001. Trends in Ohio unemployment and employment are shown in charts 5 and 6.

As Chart 6 indicates, Ohio employment measured by nonfarm payrolls was little changed through this year's first eight months, seasonally adjusted. Nonfarm payroll employment in August was 0.2% lower than the recent peak in January.[14] Employment was down in construction; manufacturing; transportation, warehousing, and utilities; and wholesale trade from peak levels in late 2018 and early 2019. The number of retail jobs continued a slide underway since 2016, with declines across most lines of business but largest at general merchandise stores, followed by clothing stores. Employment in health care and social assistance rose but more slowly than in recent years. Employment grew in professional and business services, and in leisure and hospitality.

Chart 6: U.S. and Ohio Nonfarm Payroll Employment (in millions)



[13] The nonmanufacturing index is based on a survey of organizations in all private industries other than manufacturing, as well as in public administration.

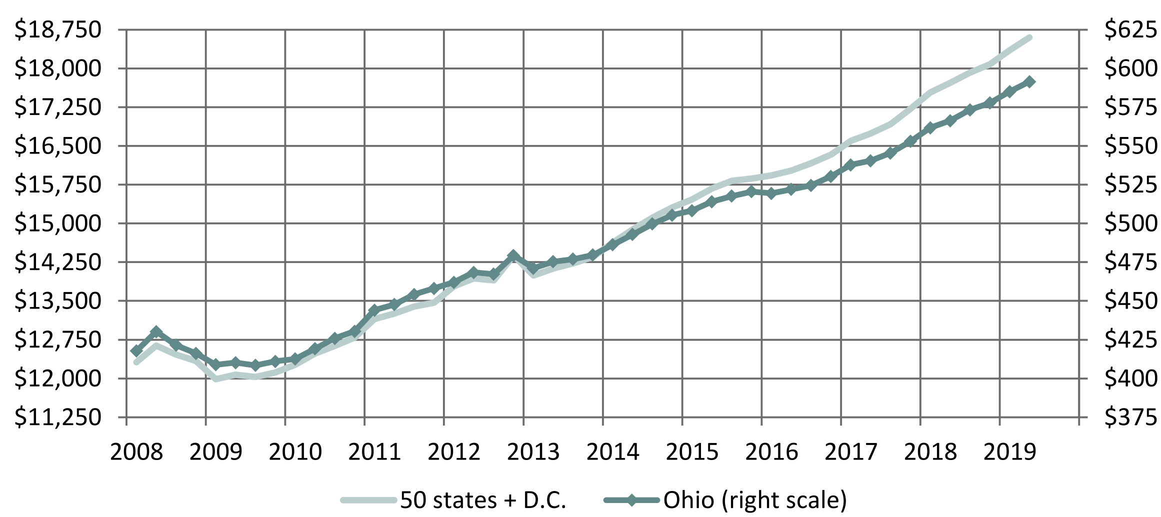
[14] The all-time peak for Ohio nonfarm payroll employment was in 2000.

This year's decline in unemployment appears to reflect greater success in finding jobs. Total employment in Ohio, more inclusive[15] than the nonfarm payroll employment discussed in the previous paragraph, rose about 83,000 or 1.5% from January to August. The acceleration shown by total employment contrasts sharply with the deceleration indicated by the nonfarm payroll numbers. The two employment estimates, based on separate surveys, sometimes give differing indications regarding the state of labor markets. Unemployment fell 31,000 from January to August.

Between August 2018 and August 2019, the unemployment rate remained the same or decreased in ten of the 12 defined metropolitan statistical areas (MSAs) which include Ohio subdivisions. The Cleveland-Elyria MSA had the largest decrease in its unemployment rate over the period, from 5.1% to 4.1%, followed by the Toledo MSA, from 4.9% to 4.4%. Unemployment rates increased in Dayton (to 4.3%) and in Youngstown-Warren-Boardman (to 6.0%) over the year. Year over year, the number of labor force participants increased in all MSAs which include Ohio subdivisions.

Personal income in Ohio rose at a 4.5% annual rate in the 2019 second quarter. This compares with a 5.4% annual rate of increase in personal income in all 50 states plus the District of Columbia (D.C.). Most of the fastest growing states were in the West, followed by those on the East Coast. Personal income includes the income of all state residents from employment, ownership of business or financial assets, and transfers. The statistic excludes capital gains and losses. As shown in Chart 7, growth of personal income in Ohio has generally trailed that of the nation during the past six years, by about one percentage point on average, after more nearly matching that nationwide in the recovery years immediately after the 2007-2009 recession. Ohio personal income was 3.2% of that for the 50 states and D.C. in the latest quarter.[16]

Chart 7: Personal Income
Billions of Dollars, Seasonally Adjusted Annual Rates



[15] Employment totals released with the unemployment estimates include farm employment and self-employed persons.

[16] Personal income in the 50 states plus D.C. differs from personal income in the national accounts due to differing treatment of incomes of U.S. residents working abroad and foreign residents working in the U.S.

Unit sales of residential real estate in Ohio during August were 2.0% lower than a year earlier, according to an Ohio Realtors' report. For the first eight months of 2019, unit sales were 0.5% lower than a year earlier. In all of 2018, unit sales were 1.0% below those in peak year 2017. The average price for home purchases closed during January-August 2019 was $194,811, 6.3% higher than a year earlier, continuing an uptrend underway since 2012.